



February 9, 2011

House Banking and Financial Services Committee
Re: Support for House Resolution No. 21

Chairman Knollenberg and Members of the Committee,

At the committee hearing held on January 26, MCUL President and CEO Dave Adams provided testimony on the state of Michigan's credit union industry. Mr. Adams also highlighted several federal regulatory issues currently before the Federal Reserve (Fed) and Congress that could significantly impact credit unions and our ability to lend. House Resolution No. 21 of 2011 specifically addresses our concerns with the Fed's debit interchange fee regulatory proposal, Docket No. R-1404.

Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires the Federal Reserve to issue regulations that would provide for reasonable debit interchange fees for electronic transactions and place limitations on payment card network restrictions. This provision was attached to the Dodd-Frank legislation as a floor amendment, without any committee or formal discussion. Credit unions and community banks rely upon small fees generated by electronic debit transactions to provide free checking services and to cover the significant costs associated with fraud and data security. If small issuers are unable to profitably offer debit services to their customers, the result could be decreased consumer choice and accelerated industry consolidation. Fortunately, because of these concerns, institutions with less than \$10 billion in assets were specifically exempted from this provision by the sponsor, Senator Dick Durbin (D-IL).

As directed by the Dodd-Frank Act, the Federal Reserve issued a proposed rule on the debit interchange fee provision in early January with a public comment deadline of February 22. After closely reviewing the Fed's proposed rule, we identified several issues that must be addressed to ensure the exemption for small issuers will properly work.

- The Fed proposal does not include any provision designed to enforce the carve-out for small issuers
- The Fed has not taken into consideration the cost to smaller institutions to provide debit card services. For smaller institutions, the cost of providing debit services is greater than for larger institutions.

The proposed rule needs to be delayed – either unilaterally by the Federal Reserve or statutorily by Congress. During that delay time, the impact on credit unions and banks needs to be studied and Congress needs to fix the statutory language. The fix should involve directing the Fed to take all costs into consideration and giving the Fed authority to enforce the carve-out and protect small issuers, as intended by Congress. We thank Chairman Knollenberg and those who have co-sponsored this resolution, and ask for your support as it is taken under consideration.

Sincerely,

Jordan J. Kingdon
Director of Government Affairs